

BRANSTETTER, KILGORE, STRANCH & JENNINGS

ATTORNEYS AT LAW

227 SECOND AVENUE NORTH

FOURTH FLOOR

NASHVILLE, TENNESSEE 37201-1631

CECIL D. BRANSTETTER, SR.
C. DEWEY BRANSTETTER, JR.
RANDALL C. FERGUSON
R. JAN JENNINGS*
CARROL D. KILGORE
DONALD L. SCHOLES
JAMES G. STRANCH, III
JANE B. STRANCH

*ALSO ADMITTED IN GA

January 20, 2000

TELEPHONE
(615) 254-8801

FACSIMILE
(615) 255-5419

David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Pkwy.
Nashville, TN 37243-0505

Hand Delivery

Re: Petition of Lynwood Utility Corporation to Change and Increase Rates and Charges -
Response to Third Staff Information Request
Docket No. 99-00507

Dear Mr. Waddell:

I have enclosed an original and thirteen copies of the Pre-filed testimony of Davis Lamb, President of Lynwood Utility Corporation for the hearing in this case set for January 26, 2000. I have enclosed an additional copy for you to mark filed and return to me. Thank you for your assistance in this matter

Sincerely yours,

Donald L. Scholes

DONALD L. SCHOLES

Enclosure

c: Vince Williams
Michael Horne
Davis Lamb

BKSJ File No.: 99-215

FILE

BEFORE THE TENNESSEE REGULATORY AUTHORITY

Nashville, Tennessee

**IN RE: PETITION OF LYNWOOD UTILITY)
CORPORATION TO CHANGE AND)
INCREASE RATES AND CHARGES)**

DOCKET NO. 99-00507

RECEIVED
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EXHIBIT SECRETARY

PREFILED TESTIMONY OF

DAVIS LAMB, PRESIDENT OF LYNWOOD UTILITY CORPORATION

Dated: January 20, 2000

FILE

1 Q. Please state your name for the record.

2 Q. My name is Davis Lamb.

3 Q. What is your position with Lynwood Utility Corporation?

4 A. President.

5 Q. How long have you been President of Lynwood?

6 A. Since May of 1999.

7 Q. What duties do you perform as President?

8 A. I oversee all of the operations of Lynwood. I oversee all regulatory, utility operations,
9 utility construction and maintenance, and financial aspects of the Company.

10 Q. Are you an employee of Lynwood?

11 A. No.

12 Q. By whom are you employed?

13 A. Smith Crowe Wilson, LLC

14 Q. Does Lynwood have any full-time or part-time employees?

15 A. No.

16 Q. What is the relationship between Lynwood and Smith Crowe Wilson, LLC?

17 A. Smith Crowe Wilson, LLC (SCW) is a full service real estate company. SCW is the
18 development manager of the River Landing Subdivision for the subdivision's owner,
19 Lumbermen's Investment Corporation. The stock of Lynwood is owned by Southern Utility
20 Corporation. All of the owners of Southern Utility Corporation are officers or principals of
21 Smith Crowe Wilson, LLC.

22 Q. Do any other employees with Smith Crowe Wilson, LLC or any related companies do
23 work for Lynwood?

1 A. No. I am the only employee who currently does work for Lynwood. Other employees of
2 SCW do assist in the operations of Lynwood in that they assist in answering the telephone and
3 performing other minor clerical duties. Daily monitoring of the sewer treatment plant is
4 performed by G. W. (Chip) Willis, III, an independent contractor. Billing and collection work is
5 performed by two persons who are hired a few hours each month to receive and post payments
6 for service. After the new rates are put into effect and Lynwood reaches an agreement with the
7 two water utilities which provide water service to its customers to handle billing and collection
8 of sewer bills, Lynwood may not need to hire the two part persons to do the billing and collection
9 work.

10 Q. What is the business of Southern Utility Corporation?

11 A. Southern Utility Corporation was created for the purpose of owning the stock of
12 Lynwood Utility Corporation. It currently has no other assets. When it was originally created,
13 the owners of Southern Utility Corporation envisioned having the Corporation own and operate
14 small privately-owned utilities, but it has not purchased the stock of or assets of any other utility.

15 Q. When did Southern Utility Corporation acquire the stock of Lynwood?

16 A. May 12, 1999

17 Q. Who are the stockholders of Southern Utility Corporation?

18 A. Thomas S. Smith, G. Nelson Crowe II, William Dickerson, and Davis Lamb.

19 Q. Are these persons principals or employees of SCW?

20 A. Yes.

21 Q. Why did the owners of Southern Utility Corporation create a separate corporation to own
22 the stock of Lynwood rather than purchasing the stock of Lynwood itself?

1 A. Three primary reasons. First, the owners of Southern Utility Corporation created a
2 separate corporation to avoid any unknown liabilities that previous owner, David Terry, may
3 have created for which the owners of Lynwood might be individually liable. Second, Lynwood
4 Utility Corporation had already received a permit from the Tennessee Department of
5 Environment and Conservation for the sewer plant expansion; therefore, the corporate structure
6 of Lynwood needed to remain in tact so no additional permit would have to be obtained for the
7 plant expansion. Third, the owners of Southern Utility Corporation originally intended to
8 acquire or manage private utilities throughout the region and wanted to establish a separate
9 holding corporation for doing so.

10 Q. Are Lynwood Utility Corporation and Southern Utility Corporations both Subchapter S
11 corporations?

12 A. Yes.

13 Q. What does this mean in regard to the taxability of the income of these corporations?

14 A. Any income of the corporations flows through to the owners of the corporations.

15 Q. How did you and Smith Crowe Wilson, LLC first get involved with Lynwood?

16 A. SCW was hired by Lumbermen's Investment Corporation as development manager for a
17 subdivision known as River Landing Subdivision. SCW also has a profit participation in the
18 River Landing development. The property upon which River Landing was to be developed is
19 within the certificated service area of Lynwood Utility Corporation. The availability of sewer
20 service was a prerequisite to Lumbermen's development of the subdivision. As development
21 manager SCW approached Lynwood about providing sewer service to River Landing. At that
22 time David Terry was the President and sole stockholder of Lynwood. Mr. Terry purchased the
23 Lynwood sewer treatment plant and system in 1996. I understand that he purchased the sewer

1 system so that he could expand the sewer treatment plant to accommodate a residential
2 subdivision which he was developing known as Legends Ridge. SCW on behalf of
3 Lumbermen's entered into negotiations with Mr. Terry about expanding the Lynwood sewer
4 treatment plant to accommodate the sewer flow from the proposed River Landing Subdivision.

5 Q. Were you directly involved with the discussions and negotiations with Lynwood about
6 providing sewer service to River Landing on behalf of Lumbermen's?

7 A. I am familiar with the negotiations, but the negotiations were primarily done by G.
8 Nelson Crowe, II.

9 Q. Who was involved in the discussions and negotiations with Lynwood about providing
10 sewer service to River Landing on behalf of Lynwood?

11 A. David Terry.

12 Q. What agreement was eventually reached between Lumbermen's and Lynwood about the
13 provision of sewer service to the River Landings Development?

14 A. The parties entered into a contract entitled Utilities Agreement dated June 26, 1998,
15 which was attached as Exhibit 1 to Lynwood's Petition in this case. SCW was advised that the
16 capacity of the Lynwood plant would have to be increased to accommodate the additional
17 wastewater from the River Landing Subdivision. Lumbermen's agreed to contribute to Lynwood
18 the costs of the construction of the upsizing of the sewer treatment plant necessary to
19 accommodate the flow from River Landing. Because Lynwood wanted to go ahead and upgrade
20 the plant to its full capacity at the same time it upgraded for River Landing, Lumbermen's agreed
21 to finance the expansion of the plant to its full capacity permitted by the State of Tennessee.
22 Originally, Lynwood agreed to charge its customers access fees to future lot owners of River
23 Landing to reimburse Lumbermen's for the expansion costs.

1 Q. Exhibit 1 also has two amendments to the Utilities Agreement. Can you summarize for
2 the Authority what happened after the Utilities Agreement was made in regard to the agreement
3 by Lynwood and Lumbermen's for the provision of sewer service to River Landing?

4 A. After the Utilities Agreement was made, SCW and Lumbermen's became aware that
5 Lynwood was in default on a note from First Tennessee Bank in the amount of \$305,000 which
6 Lynwood had borrowed to expand the plant to accommodate the sewer flow from Mr. Terry's
7 subdivision, Legends Ridge. SCW and Lumbermen's became aware that the expansion costs of
8 the plant were going to exceed the original estimates as known at the time of the execution of the
9 Utilities Agreement. SCW and Lumbermen's became aware that Lynwood did not have
10 sufficient revenues to meet its monthly operating expenses. Lumbermen's entered into the first
11 and second amendments to the Utilities Agreement in which it agreed to finance the additional
12 expansion costs and to finance the operating shortfalls of Lynwood in operating the plant.
13 Lumbermen's anticipated that it would receive reimbursement for the expansion costs and
14 expenses incurred in financing the operation of the plant by tap fees charged by Lynwood to
15 future customers.

16 Q. Why did SCW create Utility Holdings, Inc. to enter into an agreement with Lynwood to
17 manage the day-to-day operations of Lynwood in December 16, 1998?

18 A. SCW and Lumbermen's became concerned about Lynwood's ability to remain a viable
19 entity. After entering into the Second Amendment to the Utilities Agreement with Lynwood on
20 December 16, 1998, SCW and Lumbermen's wanted some control over the operations of
21 Lynwood and the expansion of the plant. The expansion of the plant was essential to
22 Lumbermen's ability to develop the River Landing Subdivision as planned. At that time, SCW
23 formed Utility Holdings, Inc. to manage the day-to-day operation of Lynwood under a

1 management agreement with Lynwood. When Utility Holdings, Inc. was created the principals
2 envisioned the potential to acquire or manage other private utilities throughout the region.

3 Q. Who with Utility Holdings, Inc. was involved with the management of Lynwood?

4 A. Me.

5 Q. What did Utility Holdings, Inc. do to manage the day-to-day operations of Lynwood?

6 A. Oversee on-sight management as well as collect payments from customers and pay all
7 bills in a timely manner.

8 Q. What was the financial condition of Lynwood at that time?

9 A. Lynwood had a note of \$305,000 plus accrued interest in default with First Tennessee
10 Bank. Lynwood had assigned this note to Lumbermen's Investment Corporation on December
11 16, 1998. Lynwood had less than \$20,000 in cash to pay all its operating expenses.

12 Q. Can you summarize the financial problems you observed with Lynwood at that time?

13 A. Lynwood's monthly income did not cover its monthly obligations. It became apparent
14 why the plant had suffered from such extreme neglect because its revenue was not high enough
15 to meet even the most basic obligations. Major expenses such as insurance, franchise and excise
16 taxes, tax preparation fees, property taxes, rate case expenses, and sludge disposal could not be
17 paid from revenue received from existing rates.

18 Q. How were the operating expenses and bills of Lynwood being paid at that time?

19 A. Operating expenses were being paid out of Lynwood's bank account. The large invoices
20 as described above simply could not be paid.

21 Q. When Lynwood did not have sufficient income to meet these expenses, how were these
22 being paid?

1 A. Lumbermen's has loaned Lynwood money to ensure that the essential expenses were paid
2 and that no liens were filed on the utility's sewer facilities. Lumbermen's loaned this money to
3 Lynwood with the understanding that Lynwood would work expeditiously to adjust the rate
4 structure so that all obligations could be met without borrowing money.

5 Q. What was the condition of the Lynwood sewer treatment plant at the time Utility
6 Holdings began managing Lynwood?

7 A. The Phase I expansion from 125,000 to 200,000 gallons per day (gpd) was operational.
8 The expansion had not been adequately funded so the plant was operational but many final items
9 were incomplete. The plant still showed evidence of 20 years of neglect such as bare electrical
10 wires, outdated equipment, collapsed railing, and many other items. The plant had been cited by
11 the Tennessee Department of Environment and Conservation for violations of its permit.

12 Q. What was the status of the expansion of Lynwood plant to serve Legends Ridge
13 subdivision and the River Landing Subdivision?

14 A. It was operational to serve all of Legends Ridge and 62 additional lots which had been
15 dedicated to River Landing.

16 Q. Who was the owner of the Legends Ridge Subdivision?

17 A. David Terry.

18 Q. What expansion of the Lynwood plant was necessary to serve the Legends Ridge
19 subdivision?

20 A. In order to serve the anticipated 150 new homes in Legends Ridge, the plant needed to be
21 expanded to treat an additional 52,500 gpd (based on 350 gpd/unit). The Phase I expansion of
22 the plant increased the capacity by 75,000 gpd from 125,000 gpd to 200,000 gpd.

1 Q. What additional expansion was going to be necessary to serve the River Landing
2 subdivision?

3 A. River Landing was able to use the remaining 21,700 gpd that was part of the Phase I
4 expansion. The River Landing Subdivision had a total of 187 lots, 62 of which could be served
5 in Phase I, so an additional 43,750 gpd of capacity was needed. The Phase II Expansion of the
6 plant increased its capacity from 200,000 gpd to 400,000 gpd; 43,750 gallons or 22% of this
7 expansion was required by the River Landing Subdivision.

8 Q. Why was it vital to Lumbermen's that the Lynwood sewer plant be expanded to serve the
9 River Landing Subdivision?

10 A. Lumbermen's acquired the property to be developed as River Landing based on the
11 capacity availability letter provided to them from Lynwood under the ownership of David Terry.
12 Without sanitary sewer, the subdivision could not have been developed as planned.

13 Q. Can you summarize the agreement between Lumbermen's and Lynwood on the financing
14 of the capital improvements for Lynwood to make sewer service available for River Landing?

15 A. Lumbermen's agreed to make an outright contribution of \$324,200.00 to the plant
16 expansion. This number was calculated based on the estimated cost with providing capacity to
17 River Landing Subdivision only. Lumbermen's further agreed to advance funds for the
18 expansion with repayment in the form of tap fees from future users.

19 Q. Can you tell the Authority how the capital improvements which Lumbermen's is actually
20 financing or has agreed to finance has changed for Lynwood since Lumbermen's and Lynwood
21 first entered into the Utilities Agreement?

22 A. The original cost of the plant expansions increased. In addition to the expansions
23 themselves, a number of capital improvements to the existing plant have been required to bring it

1 into compliance with the regulations and standards of the Tennessee Department of Environment
2 and Conservation. SCW and Lumbermen's also discovered that funds David Terry had
3 borrowed on behalf of Lynwood from First Tennessee for the Phase 1 expansion were not being
4 used for that purpose.

5 Q. Why did Southern Utility Corporation decide to buy the stock of Lynwood on May 12,
6 1999?

7 A. To secure absolute control over the sanitary sewer provider for the River Landing
8 Subdivision. This initiative effectively stopped Lynwood from incurring additional debts,
9 commitments or obligations without the knowledge and consent of Lumbermen's.

10 Q. What did you do after you became President of Lynwood?

11 A. Since managing the plant from late December 1998, I had already learned that the
12 treatment plant did not generate the necessary revenue to meet its financial obligations. I
13 immediately sought to establish a new rate structure that would protect Lynwood's ability to
14 continue to operate without filing bankruptcy. I also learned that Mr. Terry had not required the
15 owners of lots in Legends Ridge to pay the tap fee for service set forth in Lynwood's tariff. I
16 was advised that Mr. Terry had "waived" the tap fee. I immediately contacted the County and
17 put procedures in place to make sure sewer service was not established without the payment of
18 the tap fee.

19 Q. Can you summarize for the Authority the operating expenses and bills which
20 Lumbermen's has paid or is currently paying for Lynwood?

21 A. During 1999, Lumbermen's loaned Lynwood \$23,252.18 to pay operating expenses such
22 as franchise and excise taxes, property taxes, insurance, and sludge disposal that Lynwood did
23 not have the resources to pay.

1 Q. What is the current financial condition of Lynwood?

2 A. I have attached as Exhibit 1 to my testimony the profit and loss statement of Lynwood for
3 1999 submitted in response to the Staff's most recent request dated January 10, 2000. Based
4 upon the actual revenue and expenses for 1999, Lynwood will show a net loss of \$139,351 for
5 the 1999 calendar year.

6 Q. Why did Lynwood file its rate increase petition on July 15, 1999?

7 A. After I became President of Lynwood on May 12, 1999, I saw the immediate need for
8 increased revenue because Lynwood was not able to meet its operating expenses. Lynwood's
9 last rate case was in 1986, and it has had no rate adjustment since. Current monthly sewer rates
10 are flat rates based upon the number of bedrooms per residence. I felt that sewer rates based
11 upon water usage was a better and more accurate method of charging Lynwood customers for
12 their sewer service. In addition, Lynwood has undertaken an expansion of its sewer plant to
13 serve both the Legends Ridge Subdivision and River Landing Subdivision. The costs of these
14 expansions are substantial. New rates became necessary to cover the new depreciation expense
15 related to these expansions and to provide the owner of Lynwood a return on this new investment
16 in sewer plant.

17 Q. In addition to the expansions necessary to serve the Legends Ridge and River Landing
18 subdivisions, what other capital improvements have been or are going to be made to the sewer
19 plant?

20 A. We have added alarms to the clarifiers and pumps, reworked concrete joints, stabilized
21 handrails, reworked electrical lines, replaced a check valve and impellers at the pump station,
22 corrected dead areas at dosing, and we will be repairing the existing collection system lines
23 which have 32 service areas subject to infiltration and one section of main line that needs repair.

1 Q. Why are these other capital improvements necessary?

2 A. The Lynwood sewer treatment plant was built in the late 1970s. Very little improvements
3 had been made to the plant. Regular repair and maintenance items which should have been done
4 by previous owners was neglected. Lynwood's consulting engineer recommended these
5 improvements, and they are necessary to keep the plant functioning as required by the
6 Department of Environment and Conservation.

7 Q. Have you prepared Exhibits showing the need for increased rates as requested in the
8 Petition?

9 A. Yes. Exhibit 2 is a projected Revenue and Expense Statement for the year 2000 calendar
10 year which shows the revenue needs of Lynwood.

11 Q. Is Exhibit 2 different from the financial exhibit filed with the rate petition?

12 A. Yes.

13 Q. Can you explain why the financial exhibits are different?

14 A. When Exhibit 2 was prepared, I had several more months of actual experience with the
15 utility, the revenues and expenses in Exhibit 2 more accurately reflect the revenues and expenses
16 Lynwood can anticipate for the 2000 test year than when the exhibits attached to the Petition
17 were prepared. Since the rate petition was filed, I have met with Dan McCormac and other
18 employees of the Consumer Advocate's Division concerning this rate petition. Certain changes
19 have been made based upon my discussions with the Consumer Advocate. In addition, I have
20 learned a significant amount about the way rates are set for a regulated utility since I became
21 President of Lynwood, and certain changes have been made based upon what I have learned.

22 Q. Can you explain how Exhibit 2 was prepared?

1 A. The revenues for the year 2000 test year were developed by obtaining the water usage of
2 the District's customers from the City of Franklin or H. B. & T. S. Utility District in 1999. The
3 proposed rates for water service were then applied to the actual usage. The homes of some of the
4 customers of Legends Ridge were and are currently being built. Some of the Legends Ridge
5 customers had very high months of usage and some very low months of usage. These highs and
6 lows were attributable to builders using large amounts of water for building purposes in some
7 months and months in which water was turned on but not being used. Abnormally high and
8 abnormally low readings were not used in the projection.

9 Operating expenses were derived by looking at the actual expenses in 1999 and
10 incorporating any known changes to the historical amount which would occur in 2000.

11 Q. Can you explain how you arrived at the contract management expense of \$12,000 and the
12 contract clerical expense of \$3,000?

13 A. I have tried to estimate the time which I will spend in overseeing the operations of
14 Lynwood and the time needed by other employees of SCW. This amount does not nearly cover
15 my time in overseeing Lynwood since I became President. I have spent a great deal of time
16 trying to figure out the complete financial picture of Lynwood, working on the rate petition,
17 overseeing the construction of the plant expansion and several other items which may not be
18 representative of my time in the future.

19 Q. Can you explain the contract processing fee expense of \$25,157?

20 A. I have contacted the two water utilities which provide water service to the customers of
21 Lynwood about billing and collecting Lynwood's sewer charges with the customers' water bills.
22 These two water utilities are the City of Franklin and H. B. & T. S. Utility District. When this
23 arrangement was proposed, Franklin suggested that its compensation for the billing and

1 collection be 7.5% of the sewer bill. This percentage is the percentage that Franklin is charged
2 by two other water utilities in Williamson County which bill Franklin's sewer charges in areas
3 where Franklin only provides sewer service and other utilities provide water service. An
4 agreement has been signed with Franklin and a copy of it is attached as Exhibit 3 to my
5 testimony. No agreement has yet been signed with H. B. & T. S. Utility District.

6 Q. How would Lynwood benefit from having Franklin and H. B. & T. S. Utility District bill
7 and collect its sewer charges?

8 A. Two ways. First, Lynwood would be relieved of the administrative responsibilities of
9 billing its customers and receiving and posting payments received from each customer. Under
10 the proposed arrangement with the water utilities, Lynwood would receive one check a month for
11 all sewer payments received for the previous month. Second, Lynwood really has no effective
12 way to enforce the nonpayment of sewer charges by cutting off sewer services. The water
13 utilities have agreed to cut off water service for nonpayment of sewer service. Such termination
14 of water service for nonpayment of sewer service will prevent Lynwood from having large
15 outstanding balances from some customers which it presently experiences.

16 Q. What is the status of Lynwood obtaining a billing and collection agreement from H. B. &
17 T. S. Utility District?

18 A. Lynwood has still not obtained a billing and collection agreement from H. B. & T. S.
19 Utility District. The District has expressed some hesitancy about billing for Lynwood because
20 the District is concerned that the District may in some way be blamed for the increase in the
21 sewer rate. Since Franklin has now signed a billing and collection agreement, I believe that the
22 District will be more inclined to work with Lynwood. The District's Board of Commissioners
23 will meet on January 26, 2000, and I have requested that the Board consider approving an

1 agreement identical to the agreement signed by Franklin. In the event the District does not agree
2 to the billing and collection agreement, Lynwood will bill its customers by obtaining water meter
3 readings for its customers from the District and applying the new rates placed into effect.

4 Q. Describe how the rate base was developed for Lynwood?

5 A. I have attached as Exhibit 4 the calculation of the rate base for Lynwood. Before 1997,
6 the Company had not made material utility plant additions for many years. I began by taking the
7 amount of the net sewer plant in service on December 31, 1995. Plant additions in 1997, 1998,
8 and 1999 were added to it. I then took the estimated plant additions scheduled for 2000 and
9 divided it by one-half to get an amount representative for the test year of the 2000 calendar year.
10 No additional capital improvements are planned past 2000. Depreciation for the plant additions
11 since 1997 is straight line depreciation based upon a 20 year life. For plant in service before
12 1996, I have used the annual depreciation amount used for the 1995 calendar year of \$12,651.
13 This rate of depreciation appears to be based upon a life of the plant of approximately 28 years of
14 the gross plant in service as of December 31, 1995. Rather than change the rate which had been
15 used on plant in service before 1996, I have used the same annual depreciation rate for plant in
16 service before 1996 which has previously been used. For the year 2000 and forward, the plant in
17 service on which annual depreciation is based has been reduced for contributions in aid of
18 construction anticipated for these years as was suggested by the Consumer Advocate. The
19 calculation of the annual depreciation used in developing the rate base is attached as Exhibit 5.

20 The net plant in service has been reduced for the year 2000 and forward for tap fees that
21 will be booked as contributions in aid of construction and for the contribution in aid of
22 construction of the River Landing development by Lumbermen's. All tap fees paid by new
23 customers will be booked as a contribution in aid of construction. The contributions in aid of

1 construction of the River Landing subdivision will be booked as each lot in River Landing is
2 closed. River Landing has 187 lots. Therefore, 1/187 of the \$324,200.00 contribution of
3 Lumbermen's will be booked as lots in River Landing are closed. The contributions in aid of
4 construction incorporated in Exhibit 4 are based upon a projection of sales of lots in the Legends
5 Ridge and River Landing Subdivisions from 2000 through 2005. Exhibit 4 shows a projection of
6 the rate base through 2005.

7 Collective Exhibit 6 shows the projected revenues and expenses for the year 2001
8 through 2005 and the revenue deficiency of Lynwood for these years even with the rates
9 requested.

10 Q. The plant in service which you have for the calendar years 1997 through 1998 is different
11 from the net plant in service contained in Lynwood's annual reports for these years. Can you
12 explain why?

13 A. Yes. Lynwood Utility Corporation purchased the assets of Lynwood Utility Company n
14 1996. The Tennessee Public Service Commission approved this purchase by order dated June
15 27, 1996. In that order the TPSC acknowledged that Lynwood agreed that it would not seek a
16 rate increase from the TPSC to recoup the difference in the \$500,000 purchase price for the
17 assets and the net book value of the Lynwood's assets. Nevertheless, the annual report for the
18 1996 calendar years shows plant additions of \$500,000 for 1996 which was carried forward in
19 the 1997 and 1998 reports which is related to this purchase price. I have made an adjusting entry
20 to the Lynwood's accounts to correct this erroneous entry in 1996. The rate base upon which
21 Lynwood seeks the rates sought in this petition does not include the \$500,000 purchase price.

22 Q. How did you arrive at a rate of return of 8% on the Company's rate base?

1 A. I learned from meeting with the Consumer Advocate that Lynwood will not be able to
2 recover the interest paid on the note to Lumbermen's by showing interest due and payable as an
3 expense. The interest on this note is 9.5%. Lynwood is entitled to earn a return on its
4 investment in the expanded sewer plant which will be used to reimburse Lumbermen's for its
5 loans to Lynwood. I have used an 8% return. Although the 8% return is less than what would be
6 anticipated on an investment with similar risk, the economics of the rates necessary to produce a
7 greater return will only support this level of return.

8 Q. From the information you have submitted in response to the Staff Request, the rates
9 requested will triple the rate of the average residential customer of Lynwood. How can such an
10 increase be justified?

11 A. While the increase is large, the requested increase still does not cover Lynwood's full
12 cost of service. For the year 2000 test year, Lynwood projects that its revenue requirement will
13 be \$424,075, and the rates requested will produce revenues of only \$335,024. This trend will
14 continue at least through 2003. Beginning in 2004 the profit and loss projections show that the
15 requested rates will begin to cover the cost of service. The projections, however, do not include
16 any increase in expenses which will probably occur by that date.

17 Q. Why have you not included tap fees as operating revenue?

18 A. After meeting with the Consumer Advocate, I discovered that tap fees should be treated
19 as contributions in aid of construction rather than operating revenue. I learned that tap fees in the
20 Company's last rate case were set to provide additional revenue. Because of the major plant
21 expansion, the Consumer Advocate suggested that tap fees be recorded as contributions in aid of
22 construction.

1 Q. Why did the Company decide to expand the plant to its total capacity which actually
2 exceeds the amount of capacity needed to serve the Legends Ridge and River Landing
3 developments?

4 A. The cost to expand the plant to its total capacity was not significantly greater than the
5 costs to expand the plant to accommodate the projected sewer flows from Legends Ridge and
6 River Landing developments. In addition, three subdivisions near Lynwood have expressed a
7 desire to have Lynwood treat their wastewater. These subdivisions are Farmington, Meadow
8 Green, and Hillsboro Acres which consist of a total of approximately 440 homes. These
9 subdivisions are currently on septic tanks several of which are failing. They are seeking funding
10 from the county to install a collection system and transmission system to transport sewer flow to
11 Lynwood. No firm plans have been made by the county yet to fund such a collection and
12 transmission system. Should such funding be obtained Lynwood will be able to accept such flow
13 for treatment due to the expansion to its full capacity. In addition, the potential does exist for
14 future development in Lynwood's service area. While no project has been planned, Lynwood
15 will be ready to treat flow from any additional planned development within its certificated area
16 should that occur.

17 Q. When would Lynwood like new rates approved by the Authority to go into effect?

18 A. Lynwood would like to place the new rates into effect for bills rendered on or after
19 February 1, 2000. Lynwood filed its petition on July 15, 1999, and its petition and revised tariff
20 will have been filed for six months on January 15, 2000.

21 Q. Have you suggested any changes in the rules and regulations of the tariff since it was
22 filed with the Petition?

1 A. Lynwood is requesting that the section on contributions in aid of construction be
2 amended to provide that all contributions which may be treated as taxable income by the IRS be
3 increased by a cash flow amount of 33%. The existing tariff provides that all contributions in aid
4 of construction be increased by a cash flow amount of 33%. This change was made at the
5 suggestion of the Consumer Advocate.

6 Q. After the petition was filed, you filed an Amendment to Petition requesting the approval
7 of the issuance of the note to First Tennessee Bank for \$305,000 which has now been assigned to
8 Lumbermen's Investment Corporation and of the Utilities Agreement between Lumbermen's and
9 Lynwood with its Amendments. Why was this Amendment filed?

10 A. In my first meeting with the representatives of the Consumer Advocate, Dan McCormac
11 suggested that we might want to file such an Amendment. Our attorney suggested that we file
12 the Amendment so that the Authority would have full disclosure of the agreements Lynwood had
13 made to obtain funds for the plant expansions.

14 Q. Does this conclude your testimony?

15 A. Yes it does.

Lynnwood Utility District
1999 Profit and Loss Projection
Based on Current Rate Structure

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	1999 Total
Revenues:													
Sewer Fees:													
(a) Cottonwood Residents	7,314	7,314	7,314	7,314	7,314	7,314	7,314	7,314	7,314	7,314	7,314	7,314	87,768
(b) Legends Ridge Residents	700	700	700	700	700	700	700	700	700	700	700	700	10,453
(c) Miscellaneous Residents	93	93	93	93	93	93	93	93	93	93	93	93	1,116
(d) Walnut Grove Elem. School	787	787	787	787	787	787	787	787	787	787	787	787	9,444
(e) River Landing Residents	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Income	8,894	8,894	8,894	8,894	8,894	8,894	8,894	8,894	8,894	8,894	8,894	8,894	108,781
Other	9,275	8,853	8,890	8,867	9,194	9,129	9,122	9,122	9,137	9,153	9,168	9,183	108,906
Total Revenues	18,963	17,047	17,184	17,171	17,508	17,443	17,436	17,436	17,451	17,467	17,472	17,497	206,955
Expenses:													
Operating:													
Waste Water Treatment Operator	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Laboratory Analysis	2,180	720	720	720	720	720	720	720	720	720	720	720	10,910
Plant Supplies	252	138	138	138	138	138	138	138	138	138	138	138	1,656
Chlorine	614	781	488	214	0	1,155	303	893	372	0	236	927	6,004
Sludge Disposal	0	0	1,983	0	6,228	5,833	8,559	3,968	3,607	5,643	3,836	4,295	38,308
Liability Insurance	0	0	3,123	0	0	0	0	0	0	0	0	0	3,123
Property Taxes	0	0	7,496	0	0	0	0	0	0	0	0	0	7,496
State Franchise & Excise	0	0	0	0	0	0	0	0	0	0	0	0	0
Electricity for Plant	1,977	1,886	3,732	2,340	0	2,222	4,739	355	2,342	0	2,177	4,251	26,021
Electricity for Pump Stations	39	37	76	37	0	37	76	37	37	0	37	74	487
Telephone	238	144	144	64	0	128	86	65	67	5	75	133	1,003
Water for Plant	1,238	1,562	2,770	64	1,664	1,446	2,940	1,559	1,249	0	1,353	3,140	18,921
Trash Removal	8	0	6	8	0	15	7	7	8	0	7	16	82
Repair & Maintenance:	1,615	0	360	180	180	1,650	180	108	0	0	0	0	4,273
Building	0	0	0	0	0	0	0	0	0	0	0	0	0
Equipment	0	0	0	0	0	0	0	0	0	0	0	0	0
Treatment Plant	0	0	0	0	0	0	0	0	0	0	0	0	0
Pump Station	0	0	0	260	0	0	432	0	0	0	700	0	700
Total Operating Expenses	9,640	8,601	22,470	5,461	10,747	14,875	19,542	10,710	10,277	6,368	10,641	15,108	144,440
Net Results From Operations	-746	293	-13,576	3,433	-1,625	-5,753	-10,420	-1,573	-1,124	2,800	-1,458	-5,910	-35,659
Office and Overhead:													
Contract Office Expenses	447	395	237	154	134	392	80	445	0	112	214	138	2,748
Off Site Management / Overhead	3,000	3,000	3,000	0	0	0	0	0	0	0	0	0	9,000
Office Supplies	0	0	37	0	29	0	0	0	0	54	0	180	280
Postage & Delivery	0	46	66	33	0	33	0	0	0	0	0	3	181
Printing & Reproduction	331	0	0	0	0	0	0	0	0	0	0	0	331
Accounting / Professional Services	200	200	667	0	367	2,200	0	300	0	0	0	0	3,934
Licenses & Fees	0	0	317	0	0	1,250	0	0	60	0	0	0	1,567
Memberships Dues	105	0	9	95	-138	0	0	0	0	0	0	0	165
Miscellaneous	0	24	0	0	0	0	0	0	0	0	0	0	-10
Debt Service - principal	0	0	0	0	0	2,470	2,405	2,372	2,339	2,306	2,272	2,238	18,940
Debt Service - interest	0	0	0	0	0	2,438	4,844	4,844	4,844	4,844	4,844	4,844	58,126
Depreciation - Plant & Equipment	4,844	4,844	4,844	4,844	4,844	4,844	4,844	4,844	4,844	4,844	4,844	4,844	58,126
Amortization - Deferred Rate Case Cost	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Office and Overhead	8,927	8,509	9,177	5,126	7,706	11,157	7,329	7,961	7,410	7,483	7,497	7,550	95,630
Total Expenses	18,567	17,110	31,647	10,587	18,453	26,032	26,871	18,671	17,687	13,851	18,138	22,658	240,270
Net Income	-9,673	-8,216	-22,753	-1,693	-9,331	-16,910	-17,749	-9,534	-8,534	-4,683	-8,955	-13,460	-131,489
Add Back:													
Depreciation Expense	4,844	4,844	4,844	4,844	4,844	4,844	4,844	4,844	4,844	4,844	4,844	4,844	58,126
Amortization Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Cash Flow	-4,829	-3,372	-17,809	3,151	-4,487	-12,066	-12,905	-4,690	-3,623	328	-3,844	-8,449	-72,695

CONTRACT FOR THE COLLECTION OF SEWER SERVICE CHARGES

This contract is made this the 14th day of December, 1999, by and between Lynwood Utility Company, Inc., hereinafter called "LYNWOOD" and the City of Franklin, Tennessee, hereinafter called "FRANKLIN", which, in consideration of the mutual promises and covenants made herein, agree as follows:

1. LYNWOOD has constructed and operates a central sewerage and wastewater collection system within an area in which FRANKLIN provides water service. LYNWOOD has requested and FRANKLIN has agreed to bill and collect sewer service charges for LYNWOOD from its customers who receive water service from FRANKLIN.
2. LYNWOOD will provide its sewer service rate schedule to FRANKLIN in writing, as amended from time to time, thirty (30) days in advance of its effective date to allow FRANKLIN time to modify its computer billing system.
3. FRANKLIN will supply to LYNWOOD any changes to FRANKLIN's billing policies or related fees that would affect LYNWOOD's sewer customers sixty (60) days in advance of the effective date to allow LYNWOOD time to modify its rules & regulations, if necessary, and to file any necessary tariff with the Tennessee Regulatory Authority.
4. Upon request, FRANKLIN will provide to LYNWOOD a listing of LYNWOOD's customers who receive water service from FRANKLIN, together with each customer's average monthly water consumption, for purposes of establishing and monitoring LYNWOOD's sewer service rates.
5. LYNWOOD's sewer service rate schedule shall in all cases be multiplied by the amount billed by FRANKLIN in the current billing cycle for water service, inclusive of any meter adjustments or other adjustments for current or prior billing cycles, consistent with FRANKLIN's normal policies and procedures for such adjustments, and exclusive of any sales taxes on such water service. FRANKLIN shall compute and bill to each of LYNWOOD's sewer customers for the resulting sewer service charge.
6. FRANKLIN will render combined statements for its water service charges and LYNWOOD's sewer service charges in accordance with FRANKLIN's normal billing cycle(s). FRANKLIN will cause to be printed on its billing statement the name, address and telephone number of the LYNWOOD office and LYNWOOD's sewer customers will be instructed to contact LYNWOOD directly concerning complaints and maintenance of the sewer system.
7. In the event a LYNWOOD sewer customer does not pay its sewer service charges when due, FRANKLIN agrees to enforce the collection of the sewer charges in the

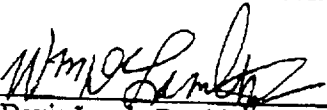
same manner as FRANKLIN enforces the collection of its water service charges. Such enforcement of collection shall include mailing of late notices, assessing late charges (or disallowing discounts) and, when appropriate, cutting off water and sewer service to that customer until such time as full payment is made by that customer. FRANKLIN shall be entitled to retain one hundred percent (100%) of all water cut off and reconnection charges assessed and collected from LYNWOOD's sewer customers as a result of non-payment or other breach of contract.

8. On or before the twentieth (20th) day of each month, FRANKLIN will deliver to LYNWOOD the gross amount FRANKLIN has collected from LYNWOOD's sewer customers through the last day of the previous month, less a service fee equal to seven and one-half percent (7.5%) of the gross amount collected, which sum shall be retained as the sole and separate property of FRANKLIN for providing the services agreed upon in this contract.
9. FRANKLIN will provide to LYNWOOD with its monthly remittance one or more monthly reports which show for each LYNWOOD customer the customer's account number, the customer's name, the service address and the amounts billed and/or collected on behalf of LYNWOOD for sewer service charges. The totals per this report(s) shall equal the gross amount due LYNWOOD in accordance with this contract. It shall be the responsibility of LYNWOOD to reconcile the monthly report to its records and to notify FRANKLIN of any billing discrepancies discovered on a timely basis.
10. LYNWOOD shall pay to FRANKLIN the full cost for setup and programming of FRANKLIN's billing system necessary to implement this agreement.
11. FRANKLIN will refer to LYNWOOD any inquiries regarding new sewer service in LYNWOOD's area of service. LYNWOOD will determine if a new sewer customer will be accepted for connection to its sewer and wastewater collection system. If accepted, LYNWOOD will collect the appropriate sewer tap fees, connection fees and/or inspection fees and will provide the new sewer customer with a receipt and authorization form.
12. FRANKLIN and LYNWOOD will establish a combined application and contract form for water and sewer service. FRANKLIN may accept applications and contracts on behalf of LYNWOOD for any transfers of existing sewer service. FRANKLIN may accept applications and contracts for new sewer service only upon presentation of a valid receipt and authorization form for new sewer service from LYNWOOD. FRANKLIN shall maintain in its files copies of all such applications and contracts for new & transferring customers. Upon termination of this contract, or upon request from time to time by LYNWOOD, FRANKLIN will supply LYNWOOD with copies of such applications and contracts. FRANKLIN shall retain one hundred percent (100%) of its application & connection fees for new & transferring customers.


13. FRANKLIN shall have no duty to repair or maintain any portion of LYNWOOD's sewer system except by separate agreement between the parties.
14. The parties agree to cooperate fully in exchanging information and implementing procedures to fully implement the intent of this contract. LYNWOOD shall have access to the books of FRANKLIN concerning the administration of this contract from time to time as LYNWOOD sees fit upon reasonable notice to FRANKLIN of its intent to do so.
15. Before FRANKLIN incorporates LYNWOOD's sewer service rates, rules and regulations in its billing as contemplated herein, LYNWOOD shall obtain the approval of the Tennessee Regulatory Authority of a revised tariff incorporating such rates, rules and regulations and shall notify FRANKLIN in writing upon receipt of such approval.
16. This contract may be terminated by either party by the giving of ninety (90) days written notice to the other party.

WITNESS the execution hereof this day and date first above written.

LYNWOOD UTILITY COMPANY, INC.

By: 
Davis Lamb, President
5214 Maryland Way, Suite 405
Brentwood, TN 37027

CITY OF FRANKLIN, TENNESSEE

By: 
Jerry Sharber, Mayor
City Hall - 109 3rd Avenue South
Franklin, TN 37064

ATTEST:


By: 

EXHIBIT 4

Annual Depreciation	12,651	15,387	44,771	65,989	77,843	93,076	82,663	72,250	61,837	51,699	41,973
Accumulated Depreciation	260,114	288,152	332,923	398,912	477,647.00	572,086.00	657,474.00	733,812.00	801,099.00	859,516.00	909,332.00
Gross Plant as of end of 1995	355,874										
Projected Gross Plant	355,874	410,586	998,270	1,422,636	1,797,636	2,172,636	2,172,636	2,172,636	2,172,636	2,172,636	2,172,636
Accumulated Depreciation	260,114	288,152	332,923	398,912	477,647	572,086	657,474	733,812	801,099	859,516	909,332
Net Plant	95,760	122,434	665,347	1,023,724	1,319,989	1,600,550	1,515,162	1,438,824	1,371,537	1,313,120	1,263,304
Contribution In Aid of Construction	0	0	0	0	-137,924	-208,261	-208,261	-208,261	-208,261	-202,761	-194,511
Accumulated Contrib. In Aid of Constr.	0	0	0	0	-137,924	-208,261	-416,521	-624,782	-833,043	-1,035,803	-1,230,314
Rate Base = Net Plant In Service					1,182,065	1,392,290	1,098,641	814,042	538,494	277,317	32,990
Interest Rate					8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Interest					94,565	111,383	87,891	65,123	43,080	22,185	2,639
NOI = Net Income - Interest											
River Landing Units per year					20	30	30	30	30	30	30
Legends Ridge Units per year					3	5	5	5	5	3	0

ANNUAL DEPRECIATION FOR RATEMAKING

EXHIBIT 5

	01-Jul-00	2000	2001	2002	2003	2004	2005
Depreciation of Plant Place in Service after 1995							
Original Cost of Plant	1,441,763	1,816,763	1,816,763	1,816,763	1,816,763	1,816,763	1,816,763
Accumulated Contributions in Aid of Construction	(137,924)	(208,261)	(416,521)	(624,782)	(833,043)	(1,035,804)	(1,230,314)
Total Plant Subject to Depreciation	1,303,839	1,608,502	1,400,242	1,191,981	983,720	780,959	586,449
Annual Depreciation	65,192	80,425	70,012	59,599	49,186	39,048	29,322
Add Depreciation for Plant Placed in Service before 1995	12,651	12,651	12,651	12,651	12,651	12,651	12,651
Total Annual Depreciation for Ratemaking Purposes	77,843	93,076	82,663	72,250	61,837	51,699	41,973

2001												
Revenues:												
Sewer Fees:												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
(a) Cottonwood Residents	20,634	20,709	25,056	18,793	22,191	22,902	23,576	25,643	26,978	24,722	22,783	26,090
(b) Legends Ridge Residents	1,789	1,718	1,750	1,876	3,620	4,394	3,080	3,983	2,936	4,862	2,869	3,266
(c) Miscellaneous Residents	171	171	207	164	183	189	195	212	223	204	198	216
(d) Walnut Grove Elem. School	787	778	789	790	791	792	793	794	795	796	797	798
(e) River Landing Residents	43	86	155	204	321	426	536	689	836	868	894	1,078
Other Income												
Total Revenues	23,433	23,473	27,957	22,829	27,106	28,703	28,180	31,321	31,788	31,273	27,531	31,448
335,024												
Expenses:												
Operating:												
Waste Water Treatment Operator	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Laboratory Analysis	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Plant Supplies	150	150	150	150	150	150	150	150	150	150	150	150
Chlorine	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Solids Disposal	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150
Liability Insurance	0	0	0	0	0	0	0	0	0	0	0	0
Property Taxes	0	0	0	9,000	0	0	0	0	0	6,000	0	0
State Franchise & Excise Taxes	5,432	0	0	0	0	0	0	0	0	0	0	0
Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0
Statement of Earnings Fee to TRA	0	0	980	0	0	0	0	0	0	0	0	0
Electricity for Plant	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Electricity for Pump Stations	60	60	100	60	60	60	60	60	60	60	60	60
Telephone for Pump Stations	100	100	100	100	100	100	100	100	100	100	100	100
Water for Plant	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Water for Pump Stations	16	16	16	16	16	16	16	16	16	16	16	16
Traffic Reports	300	300	300	300	300	300	300	300	300	300	300	300
Repair & Maintenance:												
Building	389	389	389	389	389	389	389	389	389	389	389	389
Equipment	407	407	407	407	407	407	407	407	407	407	407	407
Treatment Plant	259	259	259	259	259	259	259	259	259	259	259	259
Pump Station	135	135	135	135	135	135	135	135	135	135	135	135
Total Operating Expenses	19,188	13,786	14,756	22,786	13,786	13,786	13,786	13,786	13,786	13,786	13,786	13,786
168,616												
Net Results From Operations												
	4,236	9,707	13,201	63	13,340	14,937	14,414	17,535	18,001	11,506	13,784	17,661
148,406												
Office and Overhead:												
Contract Office Expenses	0	0	0	0	0	0	0	0	0	0	0	0
Bill Processing Fee (7.5%)	1,788	1,780	2,097	1,712	2,032	2,153	2,114	2,349	2,363	2,345	2,065	2,359
Contract Management	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Contract Chemical	250	250	250	250	250	250	250	250	250	250	250	250
Payroll Taxes	0	0	0	0	0	0	0	0	0	0	0	0
Health Insurance	0	0	0	0	0	0	0	0	0	0	0	0
Office Supplies	28	28	28	28	28	28	26	26	28	26	186	28
Postage & Delivery	0	0	131	0	0	0	0	0	131	0	0	132
Printing & Reproduction	350	0	0	0	0	0	0	0	0	0	0	700
Accounting / Professional Services	210	210	700	2,000	2,000	0	0	0	0	0	0	0
Licenses & Fees	0	0	333	0	0	0	0	0	0	0	0	0
Membership Dues	110	0	0	0	0	0	0	0	75	0	0	0
Miscellaneous	0	0	0	0	0	0	0	0	0	0	0	0
Dish Service - principal	0	0	0	0	0	0	0	0	0	0	0	0
Dish Service - internet	6,889	6,889	6,889	6,889	6,889	6,889	6,889	6,889	6,889	6,889	6,889	6,889
Depreciation - Plant & Equipment	167	167	167	167	167	167	167	167	167	167	167	167
Amortization - Deferred Rate Case Cost	10,759	10,302	11,592	12,004	12,365	10,615	10,445	10,681	10,820	10,677	10,598	11,522
Total Office and Overhead	29,967	24,066	26,348	34,810	28,131	24,381	24,211	24,447	24,687	30,444	24,323	25,289
Total Expenses	29,967	24,066	26,348	34,810	28,131	24,381	24,211	24,447	24,687	30,444	24,323	25,289
Net Income	-6,533	-585	1,609	-11,980	976	4,322	3,969	6,874	7,061	829	3,208	6,159
Rate of Return (Rate Base * %)												
Revenue Needed												
Add Back:												
Depreciation Expense	6,889	6,889	6,889	6,889	6,889	6,889	6,889	6,889	6,889	6,889	6,889	6,889
Amortization Expense	167	167	167	167	167	167	167	167	167	167	167	167

[illegible]

	Total Revenues	23,433	23,473	27,957	22,829	27,106	28,703	28,180	31,321	31,768	31,273	27,531	31,448	335,024
Expenses:														
Operating:														
Waste Water Treatment Operator	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	21,800
Plant Supervisors	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Plant Analysts	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Chemicals	150	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Sewerage	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Sludge Disposal	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	37,800
Liability Insurance	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Property Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	6,000
State Franchise & Excise Taxes	5,432	0	0	0	0	0	0	0	0	0	0	0	0	5,432
Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Statement of Earnings Fee to TRA	0	0	980	0	0	0	0	0	0	0	0	0	0	980
Electricity for Plant	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Electricity for Pump Stations	60	60	60	60	60	60	60	60	60	60	60	60	60	720
Telephones	100	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Water for Plant	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Water for Pump Stations	16	16	16	16	16	16	16	16	16	16	16	16	16	192
Trench Removal	300	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Repair & Maintenance:														
Building	389	389	389	389	389	389	389	389	389	390	390	390	390	4,672
Equipment	407	407	407	407	407	407	407	407	407	407	407	407	407	4,884
Treatment Plant	259	259	259	259	259	259	259	259	259	259	259	259	259	3,108
Pump Station	135	135	135	135	135	135	135	135	135	135	135	135	135	1,620
Total Operating Expenses	19,188	13,766	14,756	22,766	13,766	13,766	13,766	13,766	13,766	13,767	13,767	13,767	13,767	166,616
Net Results From Operations	4,286	9,707	13,201	63	13,340	14,937	14,414	17,555	18,001	11,506	13,784	17,681	148,406	

[illegible][illegible]

[illegible]

Total Revenues	23,433	23,473	27,957	22,829	27,106	28,703	28,180	31,321	31,768	31,273	27,531	31,448	335,024
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Operating

Water Treatment Operator	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	
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Contract Office Expenses
Bill Processing Fee (7.5%)

[illegible]

	Net Income	Rate of Return (Rate Base * 8%)	Revenue Needed
	4,768	1,140	3,344
	-10,245	2,711	6,057
	5,704	8,810	8,817
	2,565	4,943	7,885
	36,754		
	43,080		
	341,350		

Depreciation Expense
Amortization Expense[illegible]

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Revenues:													
Sewer Fees:													
(a) Cottonwood Residents	20,634	20,709	25,056	19,793	22,181	22,902	23,576	25,643	26,978	24,722	22,783	28,090	281,
(b) Legends Ridge Residents	1,789	1,719	1,750	1,878	3,620	4,384	3,080	3,983	2,936	4,882	2,869	3,266	35,
(c) Miscellaneous Residents	171	171	207	164	183	189	195	212	223	204	188	216	2,
(d) Walnut Grove Elem. School	787	787	788	790	788	792	793	794	795	796	797	798	9,
(e) River Landing Residents	43	86	155	204	321	428	538	889	836	895	894	1,078	8,
Interest Income													
Total	\$2,100	\$2,138	\$2,925	\$2,328	\$2,732	\$2,733	\$2,537	\$2,733	\$2,973	\$2,722	\$2,783	\$3,090	\$34,444

	Total Revenues	23,473	23,473	27,957	22,829	27,108	28,703	28,180	31,321	31,786	31,273	27,531	31,448	335,024
Expenses:														
Operating:														
Waste Water Treatment Operator	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	21,600
Laboratory Analysis	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Plant Supplies	150	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Chlorine	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Sewage Disposal	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	37,800
Electricity Insurance	0	0	0	0	0	0	0	0	0	0	6,000	0	0	6,000
Public Utility Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0
State Franchise Fees & Excise Taxes	5,432	0	0	0	9,000	0	0	0	0	0	0	0	0	5,432
Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Statement of Earnings Fee to TRA	0	0	990	0	0	0	0	0	0	0	0	0	0	990
Electricity for Plant	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Telephone	80	80	80	80	80	80	80	80	80	80	80	80	80	960
Water for Pump Stations	100	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Water for Pump Stations	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Trash Removal	16	16	16	16	16	16	16	16	16	16	16	16	16	192
Repair & Maintenance:	300	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Building Equipment	389	389	389	389	389	389	389	389	389	390	390	390	390	4,672
Treatment Plant	407	407	407	407	407	407	407	407	407	407	407	407	407	4,884
Pump Station	259	259	259	259	259	259	259	259	259	258	259	259	259	3,108
Total Operating Expenses	18,188	13,786	14,795	14,795	13,786	13,786	13,786	13,786	13,786	13,767	19,767	13,767	13,767	168,619
Net Results From Operations	4,236	9,707	13,201	63	13,340	14,937	14,414	17,555	18,001	11,506	13,764	17,681	148,408	

[illegible]Depreciation Expense
Amortization Expense

[illegible]

Total Revenues													
	23,433	23,473	27,957	22,829	27,108	28,703	28,180	31,321	31,788	31,273	27,531	31,448	335,024
Expenses:													
Operating:													
Waste Water Treatment Operator	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	21,600
Laboratory Analysts	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Plant Supplies	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Chlorine	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Solids Disposal	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	37,800
Property Insurance	0	0	0	0	0	0	0	0	0	6,000	0	0	6,000
Supplies	0	0	0	0	0	0	0	0	0	0	0	0	0
Property Taxes & Excise Taxes	5,432	0	0	0	0	0	0	0	0	0	0	0	5,432
Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Statement of Earnings Fee to TRA	0	0	980	0	0	0	0	0	0	0	0	0	980
Electricity for Plant	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Telephone	80	80	80	80	80	80	80	80	80	80	80	80	960
Electricity for Pump Stations	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Water for Plant	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Water for Pump Stations	16	16	16	16	16	16	16	16	16	16	16	16	192
Trash Removal	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Repair & Maintenance:													
Building	389	389	389	389	389	389	389	389	390	390	380	390	4,672
Equipment	407	407	407	407	407	407	407	407	407	407	407	407	4,884
Treatment Plant	259	259	259	259	259	259	259	259	259	259	259	259	3,108
Pump Station	135	135	135	135	135	135	135	135	135	135	135	135	1,620
Total Operating Expenses	19,198	13,786	14,756	22,766	13,766	13,766	13,766	13,766	13,767	18,767	13,767	13,767	168,618
Net Results From Operations	4,236	9,707	13,201	63	13,340	14,937	14,414	17,555	16,001	11,506	13,764	17,681	148,406

[illegible]

Rate of Return (Rate Base * 8%)
Revenue Needed